

1-1-1918

## Pace Student, vol.3 no. 8, July, 1918

Pace & Pace

Follow this and additional works at: [https://egrove.olemiss.edu/acct\\_pace](https://egrove.olemiss.edu/acct_pace)



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

---

### Recommended Citation

Pace & Pace, "Pace Student, vol.3 no. 8, July, 1918" (1918). *The Pace Student*. 35.  
[https://egrove.olemiss.edu/acct\\_pace/35](https://egrove.olemiss.edu/acct_pace/35)

This Book is brought to you for free and open access by the Accounting Archive at eGrove. It has been accepted for inclusion in The Pace Student by an authorized administrator of eGrove. For more information, please contact [egrove@olemiss.edu](mailto:egrove@olemiss.edu).

# The PACE STUDENT

Vol. III

New York, July, 1918

No. 8



ANY of the principles which underlie the activities of a retail pharmacy are applicable to other lines of retailing. For this reason, and for the reason that it contains an interesting comparison of business and the professions, we are publishing below a paper read before the convention of the New York State Pharmaceutical Association, June 25, 1918, by John T. Kennedy, LL.B., of the faculty of the New York College of Pharmacy (Columbia University), and of Pace Institute.

## **BUSINESS CONTROL OF THE PHARMACY**

Pharmacy, like other professions, has a business side. It is this business side which largely determines the extent, as well as the efficiency, of the professional service rendered. Very naturally the question which the pharmacist asks is, How far can system assist him in rendering a more extensive and a more efficient professional service?

Before proceeding further, I might remark that the question is not only one of failure as against success, but also one of the measure of success. Pharmacists, in some instances, may be able to do a fair business, without utilizing to the full the possibilities which business systems may open up. In other instances, the failure to adopt business principles may mean the business failure of the pharmacist. As a professional man, it becomes the duty of the pharmacist, not merely to render some measure of service, but to render the greatest measure of service consistent with the opportunities presented.

Basically, the business functions of a phar-

macy are complicated. The pharmacist undertakes what approximates manufacturing: he undertakes the compounding of prescriptions, which is the same as doing work upon special orders involving special skill; he undertakes the repacking of things from large bulk packages to small bulk packages; and he undertakes the buying and selling of things in the same form in which he receives them. Some of the things he sells are in distinctive units; others of the things he sells are not in distinctive units, but

the subject of measurement as to the individual sale. All of these constitute a combination which presents many business problems, and which necessitates much closer supervision on the part of the retail pharmacist than is required in other retail lines.

It is apparent that an attempt to systematize a pharmacy down to the minutest detail would mean oversystematizing. A concrete instance was the case of a man who had studied Accountancy and Business Administration, and who had entered the field of pharmacy. His studies in Ac-

countancy had not been supplemented by experience. He consulted me as to accounting records and routine office procedures. I immediately found that he was endeavoring to install a system which would require too large an amount of labor, and which would be altogether too complicated to serve a useful purpose. He utterly ignored the fact that many of the things which he would put into the records could be controlled by other means than records. Merely because he found a complicated condition, he jumped to the conclusion that a complicated system of accounts, of extremely detailed classification, was necessary to meet the situation.

Although the work of a pharmacist is some-

*Paper by  
John T.  
Kennedy,  
LL.B.*

## **LEADING ARTICLES**

*Incorporation by Reference*  
Page 116

*Accountants' Duties to Juniors*  
Page 118

*A Recipe for Happiness*  
Page 120

*Grouping Items in Business  
Statements*  
Page 122

*The Yellow Bag*  
Page 126

*Government War Educational  
Program*  
Page 126

what complicated, it does not follow that the alternative is between no system and over-systematizing. All that a system can do for a man

is to give him knowledge of the facts of his business. After knowing the facts, he must have the business ability so to apply his knowledge as to attain the best business results. Accordingly, the pharmacist must know facts, first, and then, knowing the facts, he must have the ability usefully to apply his knowledge in business transactions.

There are two means of learning the facts concerning a business. The first of these is by personal observation; the second is by means of records. Personal observation is limited by the capacity of the individual to observe and to retain a knowledge of the things observed. Even in the simplest instances, personal observation must be supplemented by records. For example, a proprietor can hardly retain in his mind the exact amount of indebtedness of each of several credit customers. Nor, in the constant interchange of cash, can he hope to keep in mind the exact amount of cash on hand and in bank. If others than himself handle the cash, mere personal observation, without any written record whatever, would be of little service in preventing defalcations. To some extent, even in the simplest of enterprises, records are necessary.

The extent of records required depends upon the extent to which the manager may be certain of control, without the assistance of written records. In this connection, I emphasize "certainty of control." Does the proprietor know which of the several departments of his business yields the largest profit return? Is the proprietor able, by personal observation, to ascertain the causes of loss? Without records, can the pharmacist determine whether an amount of discount offered him on a quantity purchase offsets the disadvantage of keeping goods on his shelf for a protracted period? These are typical questions vital to success in conducting a pharmacy. In each instance the inquiry must be, What records must I keep to enable me to be certain as to the causes which contribute to my profits, and as to the causes which militate against profits?

**Profit and Turnover** Briefly, let me consider some of the consequences of attempts to decide these typical business problems purely on the basis of observation. Estimates of profit on a given line are often based upon inadequate information. In making these estimates, too much emphasis is placed by the inexperienced man in business upon the margin of profit achieved in a single sale. The rate of turnover is inadequately con-

## *The* PACE STUDENT July, 1918

sidered or entirely ignored. For example, if in a given year a man can turn over a certain thing fifty times, at a relatively small margin of profit each time, he may achieve a larger total of profit than that derived from the turnover, in that year, of a slow moving article, five times.

Moreover, he has the advantage of the use of this profit as to each turnover. Thus, if the rate of turnover is twelve times a year, the profit on the first turnover is available eleven-twelfths of the year; on the second, ten-twelfths, and so on. Furthermore, handling goods of quick turnover is a more conservative business policy. The more readily goods can be converted into cash, the greater the control of the proprietor in meeting his maturing obligations. In spite of these and other advantages flowing from an article which has a quick turnover, there is a constant tendency among retailers to favor certain lines merely because they offer a larger margin of profit on a single sale. Unquestionably, if records had been kept as to a number of typical kinds of merchandise which would clearly disclose to the proprietor the full facts regarding profits secured for a period of time, these errors would not be so common. This is one illustration of how personal observation fails, and of how records help, in the solution of business problems.

Precisely the same results occur when too much dependence is placed upon personal observation in controlling expense. Not long ago the Federal Trade Commission made an extensive investigation of retail businesses. This Commission found that approximately seven out of every nine retailers who failed did not thoroughly understand the problems of overhead costs. One very common error along this line was to ignore depreciation on the fixtures. Because he failed to charge this depreciation against profits, the retailer naturally considered his profits larger than they really were. Larger amounts were withdrawn from the business than should have been withdrawn. As a consequence, when the necessity for replacement of the fixtures arose, the funds were not available to meet the exigency. This is one typical instance of how a failure to recognize the causes of loss may prove exceedingly embarrassing to those engaged in retail lines.

Personal observation fails, in many instances, to prevent the accumulation of goods which are not readily salable. Practically every pharmacist will admit the disadvantage of having his capital tied up in goods which may not be sold for some time to come. Yet a prominent pharmacist in New York, not long ago, remarked

# Biographical Snap Shots

## Men Who Have Made Good

**N**OWADAYS, banking offers many opportunities for advancement to the live-wire type of young man." Thus spoke the president of a large bank during the course of an informal conversation not long ago. He cited many young bankers of his acquaintance who have made good at a comparatively early age. William Reed, vice-president of the International Bank, New York City, was one of the men he mentioned; and it is with Mr. Reed that this sketch is concerned.

William Reed was born in Brooklyn, in 1871, and was educated in the public schools there. Then, despite his desire for a higher education, he had to go to work. His first job was in a naval stores office when he was thirteen; here he performed for two years the traditional office-boy duties—making the fire, sweeping out the office, running errands, and the like. Then he entered the employ of a wholesale whip concern, where he was a clerk for two years. His next position—a better one, of course—was as an office clerk with a window-shade factory.

In 1890, when Mr. Reed was nineteen years old, his banking career began. He secured a clerical position with the Third National Bank, New York, with which he remained for seven years—until, in fact, this bank was absorbed by the National City Bank, New York. With the latter institution, Mr. Reed had a chance to prove the mettle that was in him. After serving for ten years in practically all the departments of the National City Bank, doing highly responsible work in each, he was elected assistant cashier and put in charge of general office work—a most important position, as the National City Bank during this time was growing and expanding by leaps and bounds.

After making good at this executive work for several years, Mr. Reed was chosen Vice-President of the International Bank, New York, on January 1, 1917. This brief announcement does not begin to tell the story of the reasons behind Mr. Reed's selection. It is, however, a sufficient appreciation of his abilities to say that the International Bank is owned by the American International Banking Corporation, and is closely affiliated with the National City Bank. The International Bank, as its name implies, does a general

banking business with foreign countries—chiefly with Central and South America, Europe, and Australia. It was felt that Mr. Reed's experience and development admirably qualified him to play a large part in guiding the policies of an institution that looked upon the whole world as its clientele.

When you find a man who has forced his way up as Mr. Reed has done, you usually find that personality, as well as ability, has had a good deal to do with the attainment of success. This is true of Mr. Reed. As he himself said sententiously—though he would be the last man of all to apply his

remark to himself—"Men do business primarily with men, and only incidentally with institutions." Mr. Reed is the kind of man men like to do business with. Affable, just, even-tempered, always accessible, though by no means a time-waster, he has the rare knack of turning acquaintances into friends. "I like 'Bill' Reed as a man, and so I like to do business with his bank," is a remark you often hear from the bank's customers.

Mr. Reed has found time to interest himself in many matters not directly concerned with his daily business. When connected with the National City Bank, he was President of the National City Bank Club. He is a Thirty-second Degree Mason. He is in constant demand as a speaker before various trade and business organizations.

By nature and habit a student himself, Mr. Reed is an ardent believer in study for the young man who looks ahead and wishes to get ahead.

"When I learn that a young fellow is putting in his spare time in studying subjects that will develop him mentally, I regard his eventual success as a foregone conclusion," is the way in which Mr. Reed puts the matter.

Mr. Reed is one of the many live-wire business men of to-day who look forward to countless opportunities in American commerce, after the war, for properly qualified young men. "But it will be a case of the survival of the fittest," says Mr. Reed. "Incompetents will be no more in demand than they are now—trained ability will be the marketable commodity; and whether the demand will outrun the supply depends upon the degree in which young men wake up now and make ready for executive and financial responsibilities then."



*William Reed, Esq.*  
*Vice-President, International Bank,*  
*New York City*



EARLY in his career as a manager, Louis C. Eitzen, a former Pace student, undertook to use time-saving expedients in drawing contracts. He discovered that certain clauses of the sales contracts of

his concern changed with practically every contract, but that other clauses remained the same. Accordingly, he designed a printed sales contract in the form of a quotation letter. The clauses remaining unchanged were printed on the back of the letter, and specific reference to these clauses was printed in the opening paragraph of the body of the letter.

Some time after adopting this expedient, Mr. Eitzen began to doubt as to whether a printed reference to the printed clauses was legally binding upon a customer's acceptance of such a quotation. He asked my opinion, and although I gave him an immediate answer, I regarded his point of such importance as to warrant research and treatment in this department.

Executives who draw a number of contracts find time-saving expedients of the kind mentioned convenient. Instead of being on the back of the paper, these printed parts may be on the margin, and in some cases may be contained in a separate paper. In each instance, the motive is the same—that is, the elimination of the repetition of the material in the body of the contract itself.

Along with the convenience which attends these time-saving expedients, there are certain possible dangers. Unless a specific reference is made in the body of the contract to the parts to be found elsewhere, there may be doubts as to whether these parts are included. For example, there are cases which have held that marginal notes were not included, because there was no reference to them in the body of the contract. It does not matter that the marginal note, or other separate writing, contains a reference to the contract. Such a reference is without legal effect as a reference; the proper expedient is to refer to the added matter in the body of the contract itself.

An example of such a reference held to include the added material in a contract is found in a New York case. In this case, the letter read "subject to the conditions printed on the other side and which form a part of this agreement." The concern in question used a letter which had the conditions printed on the other side, and incorporated these words of reference in the body of the letter. The court held that the conditions printed on the other side

became an integral part of the contract itself. In the form that Mr. Eitzen used, there was printed on the face of the letter-head the following:

"Referring to ———, we take pleasure in quoting you as follows on equipment made up as indicated, subject to the terms and conditions mentioned on the reverse side, and which are made part hereof, except as hereinafter modified." In accordance with the above mentioned case, this clause is sufficient to embody the added material in the contract.

The reference must be clear of all doubt, according to another New York case. In order to accomplish this purpose, the words used must clearly identify the material which it is desired to include in the contract. If the reference is to a separate paper, then it is desirable to describe that paper so clearly that there can be no doubt as to its identity.

If the separate paper contains other conditions than those specifically referred to, then such other conditions do not become part of the contract. In each instance, only that part of the separate writing referred to which serves the purpose of the reference becomes a part of the contract. A typical case in point is that of the *Baltimore & Ohio Railroad Co. v. Stewart*, 79 Md. 487. In the contract, the wording was "B. & O. specifications to govern." The specifications referred to were contained in another agreement which provided, among other things, that the company should have the right at any time to suspend the execution of, or annul, the contract, upon giving a certain number of days' notice, without being liable for any loss or damage to the contractors.

At the trial, it was shown that the contractor had done work for the railroad under the contract referred to for a number of years. Accordingly, he was familiar with every provision of that contract. Despite the presentation of this evidence, the court held that the words, "B. & O. specifications to govern," incorporated in the new contract only such parts of the old contract as were clearly specifications. Inasmuch as the provision under which the railroad company attempted to annul the contract was not regarded as a specification, it was held not to be included in the new contract. From this case, it is apparent that in making the reference care must be exercised to use such words as will include all the conditions in the separate paper which it is desired to include.

With the decisions on this subject in mind, the following may be suggested as rules for the guidance of executives who make contracts under these circumstances: first, there must be

a specific reference in the body of the contract to the conditions, found elsewhere, which it is desired to include; second, the reference must be so clear that there can be no doubt as to the identity of the material which it is desired to include; third, the reference must be so clearly worded as to include all of the conditions to be incorporated in the contract.

Partners' Salaries

**A**CCOUNTING treatment of partners' salaries and so-called interest on partners' capital flows out of the legal rules on this subject. These amounts are properly considered as part of net profit, and not as expense items to be charged against gross profit to determine net profit.

The treatment in either case flows out of the legal rule that each partner is supposed to devote his entire time and efforts to the partnership for his share of the profits. In many cases, it has been held that if a partner should devote more time to the business than his copartner, he is entitled to no additional compensation. The only exception to this rule occurs when the partnership is wound up by one of the partners on dissolution, and when the dissolution is caused by the misconduct of the other partner. In other cases of dissolution, the duty devolves upon the surviving members to wind up the affairs of the partnership, without any special compensation for the extra labor entailed.

The exception to this rule is found in the recent Excess-Profits Tax. This exception is made, because it was deemed unfair to permit the officers of a corporation to charge salaries against profits and not permit the partners of a corporation to do so. The exception is simply a distinction for tax purposes, and has no other application than to the computation of taxes.

Rent paid to a partner for the use of his property and interest on a loan by a partner are readily distinguished from so-called salaries or interest on partners' accounts. In both of these cases, the partner is acting as an independent third person would act. He becomes a debtor to the partnership as to these amounts. On the other hand, so-called salaries and so-called interest on capital accounts represent amounts he is to receive by virtue of his contributions of capital or of skill. Since these contributions are made for the purpose of joint profit, any compensation therefor is clearly a part of such profit. Accordingly, the accounting treatment of not charging such amounts against gross profit, as expense items, is founded upon the legal decisions.

**A** RECENT Treasury-Department ruling of interest to accountants is that pertaining to the computation of income upon sales

Income Taxation  
as to Instalment Sales

made on the instalment plan. Previous regulations had covered these sales, mostly with reference to the question of whether title did or did not pass at the time of the sale. The new decision prescribes the one method of ascertaining the income, regardless of whether title has or has not passed.

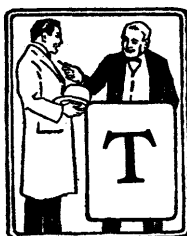
The decision sets forth four ways in which these goods are ordinarily sold on the instalment plan. These are: "(1) a provision that title is to remain in the seller until the buyer has performed his part of the agreement; (2) a conveyance of title to the purchaser, subject to a lien for the unpaid portion of the purchase price; (3) the conveyance to the purchaser and an immediate reconveyance by way of chattel mortgage to the seller; (4) conveyance to a trustee in trust to hold the title pending performance of the contract, and subject to its provisions."

The decision then comments upon the fact that the first of the above forms can not be enforced in a number of the states according to its terms. In these states, it is regarded as a sale, with a chattel mortgage given to secure the unpaid purchase price. The reason why these states so regard the transaction is to protect the rights of other creditors of the purchaser.

Since the object of all of the methods is the same, the decision prescribes one method of determining the income. This method is to determine the proportion of each instalment payment which the gross profit to be realized for the entire contract bears to the contract price. Thus, if the gross profit to be realized is 25 per cent. of the contract price, then 25 per cent. of each instalment payment would be returned as income.

Should the vendee default and the vendor secure the property back, then the entire amount received on the instalment payments, less profit originally returned, will be income to the vendor for the year in which the property was repossessed.

**L**AW teaches a man to be careful respecting his business associates. This is brought out in nearly every case where the rights of two or more innocent parties are affected by a fraudulent act. The party who trusted, or depended upon, the representations of the person committing the fraud, or the party whose acts made the fraud possible, is the one who ordinarily loses. Trust men in business, but be careful whom you trust.



**HIS** Department does not publish answers to all of the questions received, but only to those which we deem to be of general interest to our readers. A communication, in order to receive attention, must contain the name and the address of the person asking the question.

*The*  
**PACE STUDENT**  
July, 1918

**Q** **T**HE lectures on the Federal Reserve Act state that rediscount is used, ordinarily, only for emergency purposes. From the various newspapers' financial pages, I note that Federal Reserve Banks are now constantly rediscounting commercial paper. Will you kindly explain the reason for this fact?

**A** The reason is the same as that stated in the lecture—emergency. Any nation engaged in a great war is in an emergency condition in respect to finance, as well as in respect to other phases of a conflict. The Federal Reserve System is a tremendous help in solving the very many difficult problems which arise in connection with war finance, and some of this assistance is given through the system of rediscounting short-time commercial paper.

**Q** **I**T is the custom of our plant to make certain tests of fixed property, such as machinery, at required intervals. In some instances the machines are repaired, and in other instances they are not repaired. Is it proper to charge the cost of making these tests against the Reserve for Depreciation?

**A** The Reserve for Depreciation, ordinarily, measures an amount representing the wastage of the asset for which the reserve is set up. Sometimes the reserve includes an estimated cost of repairs, prorated as to the years of the estimated life of the machine. In these cases it is proper to charge the repairs against the reserve. The costs of tests, however, should not be charged against the reserve, for the reason that the reserve is ordinarily deducted from the cost of the asset it represents to find present value. Present value is in no way enhanced by these tests. For this reason, the amount expended is ordinarily charged against the profits of the year in which the tests are made.

**Q** **W**HAT does an accountant owe to a junior in the way of instruction, guidance, and counsel?

**A** It is not to be expected that the accountant can give all of the instruction that a junior needs. In Law and in Medicine, as well as in

Accountancy, it has been demonstrated that a young man can not thoroughly learn his profession in an office. Schools are necessary for

this purpose. Nevertheless, the accountant may, and should, supplement the instruction of the schools. Most accountants do this. In the larger offices, not a little literature is written for the benefit of the staff. Some of these larger offices have libraries available to the members. Quite frequently the accountant will go out of his way to instruct the junior on specific points which arise in the course of the audit, even beyond the instruction necessary to the conduct of the work. Furthermore, certain of the societies of accountants admit juniors as associate members, so that they may attend the meetings and gain instruction from the several matters discussed. There is no question that the professional man has a duty to instruct those who are candidates for his profession, and, upon the whole, the members of the Accountancy profession are discharging this duty with fidelity.

**Q** **R**ECENTLY there was a small fire in our plant. The amount that the insurance company paid for the damage to the plant was \$1,200. The cost of repairing was \$800. Will you give me the treatment of these transactions in the books of account?

**A** It is assumed that the cost of repairing was not as much as the amount received from the insurance company, because the damage was such that the building could not be placed in the same condition as before. This is likely to be the case, as it is extremely unusual for an insurance company to pay greater damages than are actually incurred. Accordingly, the entries would be:

	(Date)	
INSURANCE COMPANY	.....	\$1200
To PLANT	.....	\$1200
To record damage to plant by		
fire, covered by insurance.		
	(Date)	
CASH	.....	1200
To INSURANCE COMPANY		1200
For payment of insurance.		
	(Date)	
PLANT	.....	800
To CASH OR LIABILITY...		800
For cost of repairing damage to		
plant by fire.		

The ultimate result of these entries is that the Plant Account is \$400 less than before the fire, which is offset by an addition to Cash of like amount.

**A** IS the maker, and Y the payee, of a note. A resides in one state and Y in another. According to the laws of the state where Y

resides, the note is not at a usurious rate of interest. According to the laws of the state where A resides, it is usurious. Which of these states determines the legality of the note?

**A** If the rate of interest is legal in either of the states, then the note is not at a usurious rate of interest. In other words, the rule is, that where a maker and a payee reside in different states, the legal rate in either state may be the rate in the note.

**Q** **I**N the May issue of *The Pace Student*, you explain the computation of Income Taxes as to corporate dividends. I understand that if the dividends are out of earnings in a year prior to 1914, they are taxed at the rates for the year in which earned. Just how is this computed? For example, if \$10,000 worth of dividends were received out of earnings for 1916, in computing the surtax on a total taxable income of \$55,000, how would you proceed?

**A** So much of the income as represented that derived from other sources than the dividends you name would be computed at the rates prescribed for the year 1917. When this was completed, the remaining income would then be computed at the rates prescribed for 1916, on the dividends earned in that year. For example, if the total taxable income were \$55,000, the surtax would be on graduated amounts over and above \$5,000. You would compute these at the various rates for 1917 up to \$40,000. Then, on the \$10,000 representing the dividends, you would compute the tax at the rate prescribed for the amounts between \$40,000 and \$60,000, for 1916—that is, 2 per cent. of \$10,000.

**Q** **S**HOULD a storehouse, engineering department, boiler station, and electrical department, in a concern that has six separate plants, each plant getting supplies, steam, power, and the like from the above departments, make a profit above the cost of operation?

**A** No. It is proper to include profit only on products or service actually sold to the customers of the organization. The costs of operating these departments are merely a part of the cost of the product, or the service, which is sold. If you include a profit on the interchange between the plants, you load the inventory with an amount of anticipated profit, which is not conservative business practice. Should a part of the thing produced in any of these plants, over and above that entering into the main product, be

sold, then such parts of the costs as are chargeable to the incidental sale are credited to the costs of the principal product. Even were these

plants run by separate corporations, all owned by a parent corporation, with a fictitious profit as to products sold, or service rendered, as between the plants, there would be, on a consolidated income return, an elimination of the inter-company profits.

**W** HICH of the two sentences below is correctly constructed?

"As a general rule, spell different numbers that may be expressed in one or two words, as, seventeen, sixty-six, twenty-two."

"As a general rule, spell different numbers that may be expressed in one or two words; as, seventeen, sixty-six, twenty-two."

The second sentence is correctly punctuated. **A** Always use the semicolon before "as" when it precedes a short enumeration. If the semicolon were not used, the break before "as" would evidently be of no more importance than the break following "as." This is not the intended interpretation of the sentence.

**I** HAVE always had trouble with the use of "whosoever" and "whomsoever." Will you kindly tell me which of the following sentences is correct and why?

"I gave the books to whomsoever asked for them."

"I gave the books to whosoever asked for them."

The second is the correct sentence. "Whosoever" is in the nominative case as the subject of "asked." The principle to bear in mind is that a relative pronoun always takes its case from the clause in which it stands. In this sentence, the clause "whosoever asked for them" is used as the object of "to," but this fact does not put whosoever in the objective case.

**W** HAT is the correct pronunciation of the word *advertisement*?

The preferred pronunciation is äd-vûr'-tîz-mënt, although there is some authority for putting the accent on the third syllable.

**I**N addressing a letter to a firm, "Attention of J. H. Smith," should the salutation be "Gentlemen" or "Dear Sir"?

The salutation should be "Gentlemen." The correct arrangement of the receiver's address and the salutation follows:

Messrs. Brown & Benton,

30 Broadway,

New York, N. Y.

Gentlemen:

Attention of

Mr. J. H. Smith



Editorial

A  
Recipe  
for  
Happiness



If you seek happiness, go to the cantonments. You will find that smiling faces greet you. You will hear cheerful, animated conversations. Information will be given you with a good measure of courtesy. These men are happy, because they are about to take part in the biggest job which the Almighty has ever entrusted to humanity. They are happy, because they live as men were intended to live. They enjoy health and physical fitness. Yet they do not have anything which is not within your reach. Do as they do. Take some physical exercise, get plenty of fresh air, eat less. Do not let your appetite for an excess of rich food develop you into a dyspeptic grouch. Enjoy the same inspiration which comes from service that they enjoy. Support the various War Boards of the Government, invest your savings with the Government, contribute to the war organizations, let the men in France have the encouragement of your enthusiasm and your help. Remember that happiness dwells where least expected. There are more unhappy men among those whose every wish is gratified than in any other class. Poverty gave birth to the wit of the Irish, oppression to the humor of the negro. Sometimes it seems as if happiness nestles among the thorns of trouble and disaster and danger. Give till it hurts and be happy. Live as the men at the cantonments live, and you will be happy.

Rules  
and  
Exceptions

**T**HERE are times to keep rules and there are times—infrequent but important—to break rules. Pershing's men rejoiced, because in France they could get what they needed, when they needed it, without the obstruction of rules. You have probably read how an Army captain "broke the rules" in order to get out the registration forms in time for the first registration. In the few short months that have elapsed, he has been promoted from captain, past the ranks of major, lieutenant-colonel, and colonel, to the high rank of brigadier-general. He received this promotion because he knew when to "break the rules." If the purpose to be served is a

## The PACE STUDENT

July, 1918

bigger purpose than the one served by the rules—a condition which arises at times—then the rules should be broken. Rules are made to cover ordinary, routine conditions. In business and in governments, in peace and in war, the exceptional man is the man who knows when and how to make exceptions to the rules.

**H**AVE you a shotgun mind or a rifle mind? After you have taken mental aim, do your thoughts and concepts scatter and spend their force before reaching their target, or do they coalesce into one definite brain-projectile which speeds straight ahead and unerringly finds its mark? In short, are you scatter-brained or single-minded in what you conceive and execute?

*A Shotgun  
or a Rifle  
Mind?*

The honest answer that you make to these questions bears pretty directly upon your final status and rating in business. The executive that plans and does things thinks straight and lets nothing interfere with the accomplishment of his aims; he is the sort of man for whom there is always a demand, usually at a high salary. On the other hand, the confirmed routine worker, when confronted with the necessity of making sound decisions, finds it hard to focus his mental faculties on the objective to be gained; his value to his organization, therefore, is generally little more than a modest weekly wage.

The encouraging fact, however, is that study and training can, and do, develop a shotgun mind into a rifle mind. Whichever kind of mind you finally possess will depend in large degree upon how much you have studied, how you have studied, and how you have applied the results of your study.

**M**ORE and more we find that business men are taking an active part in war activities. Duties that were formerly in the hands of men skilled in military science have been turned over to these business men, because the work more directly appertained to business. This has been true in England as well as in the United States. At the same time, it is to be noted that the Navy has called upon business men to a somewhat less degree than has the Army. The reason for this is that the Navy has been a large organization,

*Business  
Men in  
Government  
Work*

## THE PACE STUDENT

*A Magazine of Service  
Interpreting  
the Purpose, Spirit, and Needs  
of Modern Business*

*Published Monthly*

*Subscription Price \$1.00  
a Year, Payable in Advance*

*PACE & PACE, Publishers*

*30 Church Street*

*New York*

*Copyright, 1918, by Pace & Pace*

comparatively speaking, and that its officers have had to engage in business dealings continuously.

Consequently, the Navy did not have to resort to business men to quite the same extent as did the Army. After all, the principles of organization are pretty much the same in all lines of business. It is because the man who has been a leader in business is fit to be a leader in the business side of war that this demand for active business assistance in the War Department has arisen.

## *The* **PACE STUDENT** *July, 1918*

late his admissible expenses for the first year. The son figured that they would be about twenty-eight hundred dollars. Then the father

asked him to cross out everything he could do without. The sum was reduced to about nine hundred dollars. There was just nineteen hundred dollars' difference between what he wanted and what he needed. This is a test that any one can make who desires to find out how much he can help in this war. Do without the things that you want and do not need, and you will be surprised at the size of your contribution to the victory of Democracy.

**Minute Men** **T**WO distinctive types of men are "minute men"—always ready, and "last minute men"—never ready. The first type pursues an even course through life; the second one moves spasmodically. Your "minute man" uses his nerve-force in his business; the "last minute man" loses his nerve-force in attempting to do business. He, the "last minute man," always needs a rest, but never gets one. The other fellow—that is, the "minute man"—rests when he rests and works while he works. It pays to be a "minute man."

**Service and Servility** **N**EVER in the history of the world has the word "service" been uttered so often. Everywhere, in France and here, men and women are cheerfully serving and sacrificing. Now, as never before, do men realize that service is the arch enemy of servility. We began this war because Germany would make us servile to her wishes on the high seas. We are resolved to fight this war to a finish because we believe, and have good reason to believe, that Germany would, if she could, impose absolute servility upon us. Because we will not be servile, we serve.

**Forward Thrust** **F**ORWARD thrust" is one of the many vivid phrases which the great war has projected into our civilian vocabulary. Its meaning is apparent, and so is its applicability to those of us who are not content to stand still in business. The "forward thrust" young man or woman is that one who mentally visualizes the advancement in position that can be obtained, who systematically makes ready to deserve such advancement, and who never relaxes in the effort to attain it. Are you developing into a "forward thrust" person in reference to your business future?

**Needs and Wants** **T**HERE is a vast difference between what you want and what you need. This is a truth which a young man learned just before he went to college. His father asked him to tabu-

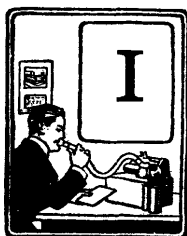
**Asking for an Increase in Salary** **S**HOULD a young man ask for an increase in salary? Yes, if he has good reasons to believe that he deserves it. Sometimes, you find young men who nurse a grievance instead of having the matter out. Let them continue long in this state of mind, and if they ever did deserve an increase, they will soon put themselves out of the way of it. Executives should encourage frankness from their employees on this point, and the employees should be frank. If the young man does not deserve the raise, even though he thinks he does, he should know why he does not. If he does deserve it, he should take measures to get it. This is a matter in which it pays to have the courage of your convictions.

**Patronize the Efficient** **D**O you complain that merit does not govern the awards of success? If so, do you help to correct the situation by helping the meritorious man? Do you buy carefully and hire judiciously, not merely for self-interest, but also upon principle? For, the more you reward merit, the more you increase merit. Be as efficient in your spending as you are in your earning, and you will be promoting your own efficiency and that of others.

**Scraping Spare Hours** **S**CRAPHEAP! This is what many a young man is making of his spare hours—the hours between dinner and bedtime. The analysis of the careers of successful business men reveals many interesting facts—none more interesting than that without exception they have made productive use of their spare time in equipping themselves for bigger duties and responsibilities. Conversely, turn a searching eye upon the habits of the mediocre, the failures, the ne'er-do-wells, the riffraff in any community, and you will find that to them spare time has always been a thing to be wasted, and wasted it they have—made a scrapheap out of it. Need a moral be tacked on?

# Grouping Items in Business State- ments

Elmer O.  
Stevens,  
C.P.A.



N the June number of The Pace Student, I presented a problem on the arrangement of items in statements for credit purposes, and solved the problem from the standpoint of the Balance-Sheet items. In this issue, the form of the Profit and Loss Account required by the problem is given, in conjunction with the forms prescribed, both for the Balance Sheet and for the Profit and Loss Account, by the Federal Reserve Board.

## SOLUTION AS TO PROFIT AND LOSS ITEMS

### BLANK COMPANY

#### Manufacturing and Profit and Loss Statement

For the year ended December 31, 1916

Sales .....		\$xx	
Less:			
Returns and allowances on sales ..	\$xx		
Freight and cartage outward.....	xx		
Discount allowed on sales.....	xx	xx	
Net Sales .....			\$xx
Cost of goods sold:			
Material inventory, Jan. 1, 1916....		\$xx	
Material purchased .....	\$xx		
Less: Discount received on purchases .....	xx		
		\$xx	
Freight and cartage inward.....	xx	xx	
			\$xx
Less: Material inv., Dec. 31, 1916..		xx	
Cost of material used.....	\$xx		
Labor factory pay-roll .....	xx		
Manufacturing expense:			
Fuel .....	\$xx		
Factory expense .....	xx		
Repairs, machinery .....	xx		
Repairs, buildings .....	xx		
Depreciation, machinery, 1916 ....	xx		
Depreciation, buildings, 1916 .....	xx		
Insurance, buildings and machinery	xx		
Taxes, real estate (expired).....	xx	xx	
		\$xx	
Work-in-process, inventory Jan. 1, 1916....		xx	
			\$xx
Less: Work-in-process, inv. Dec. 31, 1916		xx	
Cost of finished goods produced.....	\$xx		
Finished goods, inventory Jan. 1, 1916.....		xx	
		\$xx	
Less: Finished goods, inv. Dec. 31, 1916.		xx	
Cost of goods sold.....			xx
Gross profit on sales.....			\$xx
Selling expenses:			
Advertising .....	\$xx		
Salaries, salesmen .....	xx		
Commissions paid salesmen .....	xx		
Total selling expense .....		\$xx	

Gross profit on sales (forward)	\$xx
Total selling expense (forward) .	\$xx
General and administrative expense:	
Salaries, general officers .....	\$xx
Office pay-roll .....	xx
Office expenses .....	xx
Insurance, finished goods .....	xx
Total general and administrative expense .....	xx
Total expenses .....	xx
Net profit on sales .....	\$xx
Other income:	
Interest received .....	xx
Gross income .....	\$xx
Deductions from income:	
Interest paid .....	\$xx
Organization expenses (1/3 charged off) ..	xx
Subscriptions and donations .....	xx
Taxes, income, U. S. ....	xx
Total deductions from income .....	xx
Net income profit and loss .....	\$xx
Profit and loss, 1915 surplus .....	xx
Surplus, December 31, 1916 .....	\$xx

## COMMENTS ON THE SOLUTION

In preparing the Statement, I have headed it "Manufacturing and Profit and Loss Statement." This heading implies that the manufacturing statement and the profit and loss statement are incorporated in one statement. Inasmuch as the statement is not long, this is a desirable treatment. It would not be incorrect, however, to have two statements—one a manufacturing statement, and the other a profit and loss statement.

The manufacturing and trading part of the statement contemplates finding—first, the net sales; secondly, the cost of the goods sold; and, by deducting the cost of goods sold from the net sales, the gross profit on sales.

In finding the net sales, the total of the sales was taken, from which was deducted the total of returns and allowances, freight and cartage outward, and discounts allowed on sales. There may be some question as to the inclusion of the latter item in this part of the statement. If the account "Discount Allowed on Sales" includes only cash discounts, then it should be included in the profit and loss section, and not in the trading section. But since the term employed was not "Cash Discounts," it has been assumed that it may mean trade discounts. In accordance with this assumption, it has been included in the trading section. At this point it might be stated that on items of this character, the titles of which are susceptible to different interpretations, it is desirable to comment when solving problems in an examination.

The cost of goods sold naturally divides into the cost of material, the cost of labor, and the manufacturing expense. It is to be noted that the discount received on purchases is included as a deduction from the material purchased. The reason for this is the same as that given respecting discounts allowed on sales, it being presumed that the title refers to trade discounts as distinguished from cash discounts. If the title "Cash Discounts" had been used, it would be inclusive, as an item of "Other Income," in the profit and loss section.

The items "Taxes on Real Estate," "Insurance," and "Depreciation" are properly included as part of the cost of the goods. This view-point has been sanc-

**Grouping  
Items in  
Business  
Statements  
(Continued)**

tioned by the Federal Trade Commission. These items would naturally be included, in part at least, in rent, should the building have been rented. There is no question but what "Rent on Plant," when actually paid, is properly included as part of costs. There are, however, instances wherein one or more of these items are treated in the profit and loss statement, although the better practice is to include them as part of the manufacturing statement.

It will be noted that the opening inventories in each instance are dated January 1, 1916. As set up in the books, these inventories are stated as December 31, 1915. The Statement includes the period from January 1, 1916, to December 31, 1916. Accordingly, it is the practice to state the opening inventory as of the beginning date of the statement—in this case, January 1, 1916.

The profit and loss section of the Statement is divided into Selling Expenses, General and Administrative Expenses, Other Income, and Deductions from Income.

No division has been made between general expenses and administrative expenses, for the reason that there are only a few items under this combined heading.

Insurance on Finished Goods is properly included under General and Administrative Expense. It is not properly included in the manufacturing and trading part of the statement. The protection accorded by this insurance is not one incidental to manufacturing operation, but one incidental to the holding of the goods for the purpose of liquidation.

No charge appears in the model solution for bad debts. Had an instalment of these bad debts been written off for the year ending December 31, 1915, this instalment would have been charged against profits. There is nothing in the problem to indicate such intention. Although the problem does state "Doubtful Accounts Receivable," this statement indicates certain of the accounts receivable that are deemed doubtful—it does not indicate, exclusively, accounts receivable that are deemed uncollectable. Only by placing the latter construction on the term, would there be justification for charging this account in as part of the profit and loss account. It may be stated that there are three classes of accounts receivable: those deemed good, those deemed doubtful, and those deemed bad. The bad or uncollectable accounts may be written off, in which event there would be a charge to the reserve and a credit to the accounts. Accordingly, the interpretation which has been placed upon the account, "Doubtful Accounts Receivable," is that it is an item representing such of the accounts receivable as were doubtful, and which may or may not be collected; as such, it is clearly a balance-sheet item and not a profit-and-loss-account item.

The heading, "Deductions from Income," conforms with the form prescribed by the Federal Reserve Board. All of the items included under this heading are in the nature of special charges to profit and loss.

With respect to the Organization Expenses, it is to be noted that the one-third to be charged off is covered by this item. On the Balance Sheet heretofore given, a display was made as to this one-third charged off.

Subscriptions and Donations are in the nature of special deductions from income. They are not strictly expenses incurred as a matter of trading.

Under the new income-tax law, income tax paid for a preceding year can not be deducted in ascertaining taxable income for the current year. Accordingly, this may be recorded as a special deduction from income. After the net income has been determined, the "Profit and Loss, 1915, Surplus" is given. The terminology is the same as that used in the problem. The amount of this surplus is added to the net income, the sum of the two items representing the surplus as at December 31, 1916. This arrangement conforms, it will be noted, with that given in the Federal Reserve Board's statement.

**FORM OF BALANCE SHEET**

(Prescribed by Federal Reserve Board)

**ASSETS**

<b>Cash:</b>			
1a. Cash on hand—currency and coin ..	\$xx		
1b. Cash in bank .....	xx		
			<b>\$xx</b>
<b>Notes and accounts receivable:</b>			
3. Notes receivable of customers on hand (not past due) .....	\$xx		
5. Notes receivable discounted or sold with indorsement or guaranty ....	xx		
7. Accounts receivable, customers' (not past due) .....	xx		
9. Notes receivable, customers', past due (cash value, \$. . . .)	xx		
11. Accounts receivable, customers', past due (cash value, \$. . . .)	xx		
<b>Less:</b>			
13. Provisions for bad debts ...	\$xx		
15. Provisions for discounts, freights, allowances, etc. . . .	xx	xx	
			<b>xx</b>
<b>Inventories:</b>			
17. Raw material on hand .....	\$xx		
19. Goods in process .....	xx		
21. Uncompleted contracts .....	\$xx		
Less: Payments on account thereof	xx		
		xx	
23. Finished goods on hand .....	xx		
			<b>xx</b>
<b>Other quick assets (describe fully):</b>			
.....	\$xx		
.....	xx		
			<b>xx</b>
<b>Total quick assets (excluding all investments) .....</b>			
			<b>\$xx</b>
<b>Securities:</b>			
25. Securities readily marketable and salable without impairing the business .....	\$xx		
27. Notes given by officers, stockholders, or employees .....	xx		
29. Accounts due from officers, stockholders, or employees .....	xx		
			<b>xx</b>
<b>Total current assets .....</b>			
			<b>\$xx</b>
<b>Fixed assets:</b>			
31. Land used for plant .....	\$xx		
33. Buildings used for plant .....	xx		
35. Machinery .....	xx		
37. Tools and plant equipment .....	xx		
39. Patterns and drawings .....	xx		
41. Office furniture and fixtures .....	xx		
43. Other fixed assets, if any (describe fully) .....	xx		
			<b>\$xx</b>
<b>Less:</b>			
45. Reserves for depreciation .....	xx		
			<b>xx</b>
<b>Total fixed assets .....</b>			
			<b>xx</b>
<b>Deferred charges:</b>			
47. Prepaid expenses, interest, insurance, taxes, etc. ....		xx	
Other assets (49) .....		xx	
			<b>xx</b>
<b>Total assets .....</b>			
			<b>\$xx</b>

**Grouping  
Items in  
Business  
Statements  
(Continued)**

**LIABILITIES**

Bills, notes, and accounts payable:

Unsecured bills and notes—

- 2. Acceptances made for merchandise or raw material purchased . . . . . \$xx
- 4. Notes given for merchandise or raw material purchased . . . . . xx
- 6. Notes given to banks for money borrowed . . . . . xx
- 8. Notes sold through brokers . . . . . xx
- 10. Notes given for machinery, additions to plant, etc. . . . . xx
- 12. Notes due to stockholders, officers, or employees . . . . . xx

\$xx

Unsecured accounts—

- 14. Accounts payable for purchases (not yet due) . . . . . \$xx
- 16. Accounts payable for purchases (past due) . . . . . xx
- 18. Accounts payable to stockholders, officers, or employees . . . . . xx

xx

Secured liabilities—

- 20a. Notes receivable discounted or sold with indorsement or guaranty (contra) . . . . . \$xx
- 20b. Customers' accounts discounted or assigned (contra) . . . . . xx
- 20c. Obligations secured by liens or inventories . . . . . xx
- 20d. Obligations secured by securities deposited as collateral . . . . . xx

xx

- 22. Accrued liabilities (interest, taxes, wages, etc.). . . . . xx

Other current liabilities (describe fully):

..... \$xx  
..... xx

xx

Total current liabilities . . . . .

\$xx

Fixed liabilities:

- 24. Mortgage on plant (due date....) . . . . . \$xx
- 26. Mortgage on other real estate (due date....) . . . . . xx
- 28. Chattel mortgage on machinery or equipment (due date....) . . . . . xx
- 30. Bonded debt (due date....) . . . . . xx

xx

- 32. Other fixed liabilities (describe fully):

..... \$xx  
..... xx

xx

Total liabilities . . . . .

\$xx

Net worth:

34. If a corporation—

- (a) Preferred stock (less stock in treasury) . . . . . \$xx
- (b) Common stock (less stock in treasury) . . . . . xx
- (c) Surplus and undivided profits . . . . . xx

\$xx

Less—

- (d) Book value of goodwill . . . . . \$xx
- (e) Deficit . . . . . xx

xx \$xx

36. If an individual or partnership—

- (a) Capital . . . . . \$xx
- (b) Undistributed profits or deficit . . . . . xx

xx

Total . . . . .

\$xx

**FORM FOR PROFIT AND LOSS  
ACCOUNT**

(Prescribed by Federal Reserve Board)

**Comparative Statement of Profit and Loss  
for Three Years Ending.....19**

	Year Ending .....		
	19....	19....	19....
Gross sales . . . . .	\$xx	\$xx	\$xx
Less: outward freight, allowances, and returns . . . . .	xx	xx	xx
Net sales . . . . .	\$xx	\$xx	\$xx
Inventory beginning of year . . . . .	\$xx	\$xx	\$xx
Purchases, net . . . . .	xx	xx	xx
	\$xx	\$xx	\$xx
Less: inventory end of year . . . . .	xx	xx	xx
Cost of sales . . . . .	\$xx	\$xx	\$xx
Gross profit on sales . . . . .	\$xx	\$xx	\$xx
Selling expenses (itemized to correspond with Ledger accounts kept) . . . . .	\$xx	\$xx	\$xx
Total selling expense . . . . .	\$xx	\$xx	\$xx
General expenses (itemized to correspond with Ledger accounts kept) . . . . .	\$xx	\$xx	\$xx
Total general expense . . . . .	\$xx	\$xx	\$xx
Administrative expenses (itemized to correspond with Ledger accounts kept) . . . . .	\$xx	\$xx	\$xx
Total administrative expense . . . . .	\$xx	\$xx	\$xx
Total expenses . . . . .	\$xx	\$xx	\$xx
Net profit on sales . . . . .	\$xx	\$xx	\$xx
Other income:			
Income from investments . . . . .	\$xx	\$xx	\$xx
Interest on notes receivable, etc. . . . .	xx	xx	xx
Gross income . . . . .	\$xx	\$xx	\$xx
Deductions from income:			
Interest on bonded debt . . . . .	\$xx	\$xx	\$xx
Interest on notes payable . . . . .	xx	xx	xx
Total deductions . . . . .	\$xx	\$xx	\$xx
Net income—profit and loss . . . . .	\$xx	\$xx	\$xx
Add special credits to profit and loss. . . . .	xx	xx	xx
Deduct special charges to profit and loss . . . . .	xx	xx	xx
Profit and loss for period . . . . .	\$xx	\$xx	\$xx
Surplus, beginning of period . . . . .	xx	xx	xx
	\$xx	\$xx	\$xx
Dividends paid . . . . .	xx	xx	xx
	\$xx	\$xx	\$xx
Surplus, ending of period . . . . .	xx	xx	xx
	\$xx	\$xx	\$xx

**Business  
Control  
of the  
Pharmacy  
(Continued)**

that there were many pharmacists unnecessarily loaded down with unsalable goods. And this same pharmacist attributed this condition to the failure of these pharmacists to keep stores records which would enable them to determine the proper quantities of goods to order as occasion arose.

These typical instances may be multiplied. It is not my intention to go into all of the technical business problems which records may help the pharmacist to solve. Sufficient has been said to show conclusively that systems should contemplate records adequate to give the pharmacist the facts upon which he may base his control of the business side of his profession.

**Indirect  
Benefits of  
Efficiency**

Apart from the direct benefits to be derived from adequate control through adequate records, there are other indirect benefits. The rendering of true professional service is dependent upon securing and retaining the confidence of those who seek the service. Those who seek the services of pharmacists have little means of judging the value of the service rendered from the standpoint of technical pharmaceutical ability. Their judgments are usually based upon other observations. They are apt to reach the conclusion that the pharmacist who displays efficiency in the conduct of his business, is likely to display efficiency in the more technical phases of the profession. Inversely, they are likely to reach the conclusion that the pharmacist who displays inefficiency in his business relationships, is apt to be inefficient as a pharmacist. The question is not whether these judgments reached are or are not correct. Regardless of the correctness of the conclusions, business efficiency, or business inefficiency, materially influences the confidence which the customer has in the pharmacist.

One concrete instance has come to my attention, in which the relationship between the customer and the pharmacist may become impaired by poor business dealings. This instance was given at a meeting of the New York College of Pharmacy by one of the prominent pharmacists of New York. He stated that, in sending goods to a customer, he insisted upon the messenger's bringing back either cash or a receipt for the goods. On the receipt, it was clearly shown that the signature of the customer would mean a charge to his account. This simple expedient was the outgrowth of abstractions of cash by the mes-

*The*  
**PACE STUDENT**  
July, 1918

senger. As a consequence of these defalcations, the customer would be charged at the end of the month with an amount which was not owing. This caused disputes with the customer which endangered retention of the confidence and future patronage of the customer. The improved expedient obviated all trouble of this nature.

Not only in cases of overcharging, but also in cases of undercharging, is this result likely. Judgment of the accuracy and carefulness of the pharmacist is very apt to be based upon incidents of this kind. Any cause which leads the customer to believe that the pharmacist is careless and inefficient, is a cause likely to impair the confidence of his customer.

There are those who shun the idea of what might be called commercialism in connection with a profession. Broadly speaking, commercialism, as contemplated by these persons, is the subordination of ethical principles to monetary considerations. In every profession, there are found men who are guilty of violating professional ethics. Unquestionably, this is as true of the profession of pharmacy as of any other profession. The institution of business methods is, however, not to be confused with this species of commercialism. On the contrary, the business methods invoked by the conservative members of the profession afford the best means of stamping out this type of eommercialism.

Whatever may be said against those members of the profession who violate the ethics of the profession, it can not be denied that they often exhibit business shrewdness. Are the young men who enter the field of pharmacy to compete with those individuals to be unprotected by a sound knowledge of business principles? Just as these principles may be a sword in the hand of the unscrupulous, so they may become a shield in the hand of the scrupulous pharmacist. Foolish, indeed, would be the man who reached the conclusion that the utilization of the principles of business in a profession detracts from the standing of the profession. For it is by means of business principles that the service rendered may reach its fullest scope, and it is by means of business principles that the ef-

forts of the less scrupulous may be negatived.

Among the several distinctions between a profession and a business is that one which flows out of the attitude of the individuals served. Ordinarily, a business seeks the patronage of those whom it serves. On the contrary, those who are served, ordinarily seek the services of the professional man. Business goes to the individuals served; the individuals served go to the professional man. Nevertheless, in a profession, there is at once the desirability and the necessity of attracting those who are to be served. Of all the means of attracting these individuals, that which receives the highest sanction is the rendering of the fullest measure of efficient service. To the extent that business systems contribute to this rendering of service, they are the allies of the man who aspires to the highest professional standards.

It was Chief Justice Marshall, of the United States Supreme Court, who said, "When the reason for a rule has ceased, the rule itself should cease." Paraphrasing this saying as to a system: Do not adopt an accounting classification or a business procedure unless it serves a useful purpose. Corollary to this rule is the next: Learn the full extent to which system may aid in business management. Like any other useful thing, system should be used and not abused.

System is a means and not an end. As a means, system awakens dormant possibilities and vitalizes neglected opportunities. Let the student have the protection of system against the unscrupulous competitor who violates ethical standards. Teach him how system may secure and retain the confidence of those whom he serves. Train him to use system to enlarge the scope and intensify the effectiveness of his professional service. Give the student a knowledge of all that business systems may do for him. With this knowledge, let him learn the limitations which must guide him in installing and operating a system. Make him a master of system, so that system will serve him and, through him, serve humanity.

THOMAS D. HARDEN, graduate of the Pace Courses in Washington, has joined the U. S. Marine Corps.

MISS VIRGINIA DIGGS, Pace Institute, has become associated with Jones & Baker in the capacity of cashier.

**Distinction  
between  
Profession  
and  
Business**

**The Yellow Bag** IN response to numerous requests, The Pace Student is pleased to publish again "The Yellow Bag," which appeared in the first issue of the magazine. The article follows:

This is a protest against a growing delusion of the business man; it is also a brief for the wife and for the children. The visible sign of the delusion is a bag carried by the business man as he journeys between home and office. The color is usually, but not necessarily, yellow.

In Boston the bag is of a peculiar shape, apparently a cross between the lawyer's green bag and a small traveling bag—a very different and superior member of the great bag family, found nowhere else on the face of the earth.

In New York the bag takes the form of a flat receptacle or case provided with compartments.

We may even go back of the fully developed trouble and find the early symptoms in the bulging pocket.

The man who carries the bag may be seen in his office at the close of the business day solemnly making a collection of letters, contracts, briefs, sketches, diagrams, and maps for transportation homeward. He has a fond hope—and therein lies the delusion—that he will accomplish business wonders with the documents before the next business day.

Time after time the documents are thus collected and carried from office to home and from home to office without being opened; or, if they are inspected, they are returned without any worth-while accomplishment. The process soon wears a groove, and becomes a habit; and afterwards, like twiddling the thumbs or smoking a cigarette, it is carried on for the luxury of the habit rather than for the purpose of securing a practical result.

We have in mind, for example, the case of a busy executive. His duties require that he leave his home at 7.15 in the morning, to be gone until 6.45 in the evening. He carries on each trip enough work to occupy his attention uninterruptedly for two full working days. This man naturally eats his dinner and his breakfast at home, and requires a wink of sleep, besides attending prayer meetings and occasionally being decent to his wife and four children. The question is, Why buy the bag? A good one costs eight dollars.

The fact is, the bag or case is a badge of disgrace and not an evi-

## *The* **PACE STUDENT** *July, 1918*

dence of effective industry. Whenever you see the bunch of home work, unless it is the legitimate home work of the student, take it for granted that the man who carries it argued with a salesman when he should have dismissed him in two minutes, or he dawdled over a lunch thirty minutes too long, or he spent golden minutes in talking to others, clerks or magnates, about the things he has accomplished or is going to accomplish.

The effective business man utilizes business hours fully for business purposes; and one reason why he can do so is that he changes his atmosphere completely at the end of the business day, and secures the rest and tone which he needs to put himself on edge for the succeeding day's duties.

The wife is the sworn foe of the yellow bag. By wiles and guises not to be understood by the masculine mind, she fights a subtle warfare which causes the bag night after night to remain on the library table unopened. It is a warfare in which no man can succeed, unless he cuts away from himself the things which make life worth living and the business game worth while. His tired mind carries a worried feeling every time he thinks of the work to be done; and the walk, or the ride, or the concert is marred by the yellow monster which reminds him of the wasted opportunities of his business day.

With a little ingenuity you can still make use of the bag. The Boston variety will make a splendid cartridge case; the New York receptacle, with a few adjustments, would hold untold varieties of fish-line, with hooks ranging all the way from ones of shark strength to snells of trout delicacy. Some of them have possibilities in the way of holding tennis and golf balls, and small boys have been known to make moccasins out of them.

In any event, for the sake of good business, if not for the sake of your comfort, your health, and the affection of your wife, give up for all time a custom which is founded on inefficiency, and which fosters unrealizable hopes of accomplishment.

**THE ANNUAL MEETING** of the American Institute of Accountants will be held at Atlantic City, N. J., on September 16, 1918.

**INTENSIVE** training for employment managers has been instituted under Government supervision. This is a part of a war educational program of the Government. Each of the several subjects in this program is being taught along intensive lines. For example, officers of the Army have been trained within three months, with fair results. In some cases, under supervision of the Government, factory employees have been given special instruction in handling machines. The Ordnance Department has given courses of six weeks in stores' keeping, their training school in warehousing being found in many of our universities. Likewise, the Red Cross has conducted intensive courses in the various phases of its work. The courses in employment supervision are the latest effort in intensive training.

Andrew H. Phelps, Brooklyn Institute of Accountancy, and now representing the United States Chamber of Commerce, forwards The Pace Student a pamphlet on this subject, the contents of which we are pleased to review.

Early in the war, both France and England recognized the importance of this training for employment managers. One of the French government departments instituted several intensive training courses, particularly for plants having many women employees.

The head of the employment department of a large corporation is concerned with all of the activities of the organization which have to do with internal human relations. Among these are legislation, safety, education, recreation, "hiring and firing," discipline, the wage system, pensions, and sick benefits. In addition to one head of the department, there may be specialists in each subsection dealing with these specific subjects. There is no case on record in which a separate employment and service department, once installed, has been discarded.

As significant of the importance of an employment department, the following is quoted from the circular:

"A representative of the Industrial Service Section of the Ordnance Department has declared that no labor difficulty has been brought to the attention of that department that could not have been foreseen and avoided if the factory in question had already established a modern employment department. A notable instance came to the attention of the Quartermasters Department

**Government  
War  
Educational  
Program**



where two mills, side by side, working on the same type of material on Government contracts, and employing the same type of workers, got totally different results from those workers, because one had a well-conducted employment and service department and the other had not. The former even paid a slightly lower wage, but the one which had no employment department had repeated difficulties leading to a total shut down from a strike, and even though it yielded every demand made by the strikers, including a fifteen per cent. increase in wages, a shorter work day, the abolition of bonuses, and the recognition of a shop committee, it could not fully allay difficulties. Meanwhile, the mill next door kept peacefully on, producing goods every day. This was due to the fact that justifiable complaints of workers were discovered and attended to, as they arose, by the employment department."

**BENJAMIN ALK**, Pace Institute, New York, has joined the National Army, and is now stationed at Camp Upton, New York.

**M. B. WALSH**, graduate of the Pace Courses, now instructor in Pace Institute, New York, has been elected assistant secretary of the Edison Primary Battery Company.

**GEORGE L. ALPERS**, Pace Institute, class in oral expression, has joined the Canadian Army. Mr. Alpers is an American, and his reasons for joining the Canadian Army are given in the following quotation from his letter:

"At last I am to get my chance at the Kaiser. After being left behind by my own troop for physical disability, when they went off to war last year, and being turned down seven times by the American Army, I have persuaded the Canadian Army to take me. I leave on the 17th of June for Montreal, en route to Halifax for steamer to England.

"I expect to be in England early in July and on the battle line before August. It will be good to get back to the smell of sweat and leather of the cavalry again."

Mr. Alpers was with the *Metro-politan Magazine* in the publicity department, and hopes to return to its force after the war. Loyalty takes first rank in the many good traits of Mr. Alpers—loyalty to his employers, loyalty to his tasks, loyalty to the cause of humanity, and loyalty to his country.

## *The* **PACE STUDENT** July, 1918

**H. HERBERT IHLO**, New York Institute of Accountancy, has enlisted in the United States Naval Reserve.

**GEORGE W. MATHESON**, A.B., LL.B., of the law faculty, Pace Standardized Courses, has joined the U. S. Navy.

**EDWARD C. GROLZ**, 23rd Street Y. M. C. A., Pace Courses, has joined the Service, and is now at Camp Sivier, South Carolina.

**C. C. BARNES** has been elected principal of the commercial department, Ferris Institute, Big Rapids, Michigan, as successor to W. W. Knisley.

**A. S. BERBERIAN**, Providence Institute of Accountancy and Business Administration, is now with the National Army, and is stationed at Camp Upton, New York.

**WALTER S. JOHNS**, Pace Institute, has accepted a position as bookkeeper with James M. White & Company. Mr. Johns was formerly employed by J. S. Frelinghuysen.

**JAMES H. FORTUNE**, Brooklyn Institute of Accountancy (Pace Courses), has left for England in order to take up duties of an accounting nature in the service of the British Government.

**ALEXANDER G. THOMSON**, Pace Institute, has resigned his position as cost accountant with Walter Kidde & Company, Inc., to accept one of a similar nature with the U. S. Industrial Alcohol Company.

**HERBERT E. THOMANN**, Cleveland School of Accountancy, has severed his connection with the Ningesser Carbon Company, and is now associated with Messrs. Gaston, Williams & Wigmore in the capacity of bookkeeper.

**EDWARD C. LUX**, Pace Institute, Extension Division, was recently appointed treasurer of the Robert E. Farley organization, which controls the activities of nine real estate corporations. Mr. Lux states that his accounting training was primarily responsible for this appointment.

**J. B. SUMNER**, a student in the Pace Courses, Y. M. C. A., Los Angeles, California, is now in England, and is with the Ministry of Munitions of War. Mr. Sumner writes a letter to Mr. O. T. Johnston, of Los Angeles, in which he states that conditions are vastly different in England from what they are in Los Angeles. In that country, the people are called upon to make many sacrifices because of the war, and Mr. Sumner says that they are doing it cheerfully. The following quotation from his letter illustrates his feelings on the matter, as well as his progress with the Ministry:

"But somehow one does not seem to mind the disagreeable phases of living, so long as you feel you are contributing, no matter in what humble capacity, toward the common object of the Allies—the defeat of the Germans, and the re-establishment of law and order throughout the world. If that is attained, the sacrifices will not have been in vain.

"You will be pleased to hear that the Government has been good enough to inform me that my work has been extremely satisfactory in the reorganization of the Ministry which is taking place. I find myself placed in what promises to be a better position—one dealing exclusively with finance and not audit work. I am told that this has been done on account of my work proving so satisfactory. It is nice to feel that your services are appreciated, and that you are getting on, but I think Los Angeles will see me again just as soon as the war is over and I can be released."

**THOMAS J. BROWN**, Pace Institute, Boston, passed the last Massachusetts State Examination for the degree of Certified Public Accountant. Mr. Brown was born in Woburn, Mass., and educated in the Woburn Public Schools. He holds the degree of A.B. from Harvard University, having graduated in 1910. For six years Mr. Brown has been connected with insurance companies and is now associated with William C. Canning, Esq., a member of the Pace faculty, in the practice of Accountancy.

**GEORGE MATTHEWS**, Pace Institute, Extension Division, has recently been transferred by his employer, the Producers Refining Company, to Fort Worth, Texas, where he is now engaged upon new work of a highly responsible and difficult nature.

*Personal*



# Extension Students at Work

**W**HILE on a trip through the Middle West a few weeks ago, I had the opportunity of meeting many of the students of Pace Institute, Extension Division. An exceptionally earnest group of students, deeply interested in their work, they are anxious to do full justice to their course, and to grasp every opportunity for betterment.

Several salesmen are enrolled in the Extension Division. One told me that he had started the course in order to obtain a better working knowledge of the organization behind him, and in order to broaden his business perspective. He told me that the course had helped him to a better grasp of his job, and to a realization that effective operation is as vital in an organization as a large volume of sales.

Bookkeepers and those doing accounting and clerical work in the offices of large corporations naturally constitute a fair proportion of the Extension student body. For the most part, these students are training themselves for executive positions with their own organizations or for the professional practice of Accountancy. Several of the students with whom I talked are preparing for the C. P. A. examinations in their own states. A good number of these students were from the offices of large corporations, and had been urged to take the course by their immediate superiors.

I have mentioned a few groups from which members of the Extension student body are drawn. There are, of course, hundreds of individuals who come in none of these groups. For example, many men have businesses of their own, and realize the need of a definite knowledge of accounting, law, and applied economics to aid them in the management of their own affairs. Women, too, are turning to accounting as a means which will enable them to carve out in the business world a successful and independent future.

Certain problems are peculiar, possibly, to Extension students. One teacher with whom I talked was anxious to get into business, but was in doubt as to just what steps to take in order to achieve his desire. Another,

who was teaching commercial subjects in a large city high school, was anxious to become an accountant. He asked about opportunities in New York as compared with those in his home city, about the work he was fitted to do, and about how much his teaching experience would be of assistance to him in professional Accountancy practice. Salesmen told me that one of their greatest problems is to find the necessary time for study. Most of them, I found, utilize, so far as possible, their time while traveling, and study their text lessons on the train.

Many students of the Extension Division are men who have passed the age when one would ordinarily be pursuing a course of study. Some men at the age of forty or forty-five are considering changing their work and getting into some business where their knowledge of accounts will help them to an executive position. Some of these men are college graduates with years of professional or business experience behind them. They do not seem to have the slightest hesitancy, however, about making a change in their vocation.

The C. P. A. requirements in the different states interest many Extension students. Several of them are planning to come to New York City as they progress with their course, in order to get their practical experience. Opportunities for practical work on the staffs of large Accountancy firms are rare, even in many of the larger cities.

We can visualize, then, the Extension student completing his course of study, and utilizing in his work the training that he has received. He may elect to work his way up in his own organization; he may decide to seek new business affiliations with larger opportunities; or he may feel that he is cut out for an accountant, and thus affiliate himself with an Accountancy firm. The Extension student may be young or old—he may be just starting his business life, or, at middle age, he may be deciding upon a new career. At any rate, he has earnestness and a fixed purpose; and these two will carry him far.

GEORGE M. LATTIMER.